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REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the French nationalizations

Rapporteur: Mr R. DELOROZOY

PE 88.383/fin.

English Edition

At its sitting of 17 September 1983, the European Parliament referred the motion for a resolution tabled by Mr Cousté (Doc. 1-502/81), pursuant to Rule 47 of the Rules of Procedure, to the Committee on Economic and Monetary Affairs.

At its meeting of 21 October 1981, the committee decided to draw up a report and appointed Mr Delorozoy rapporteur.

At its sitting of 17 December 1981, the European Parliament referred the motion for a resolution tabled by Mr Jaquet and others (Doc. 1-896/81), pursuant to Rule 47 of the Rules of Procedure, to the Committee on Economic and Monetary Affairs.

At its meeting of 23/24 February 1982, the committee appointed Mr Delorozoy rapporteur.

It considered the draft report at its meeting of 29 November 1983 and 25 January 1984 and adopted it by 11 votes to four.

The following took part in the vote: Mr MOREAU, chairman; Mr MACARIO, vice-chairman; Mr DELEAU, vice-chairman; Mr DELOROZOY, rapporteur; Mr BEAZLEY, Mr BONACCINI, Mr FRIEDRICH, Mr HERMAN, Mr MULLER-HERMANN, Mme Tove NIELSEN (deputizing for Mr DE GUCHT), Mr NORDMANN, Mr PAPANTONIOU, Mrs THEOBALD-PAOLI, Mr TUCKMAN (deputizing for Mr de FERRANTI) and Mr WELSH.

The report was tabled on 27 January 1984.

The deadline for tabling amendments to this report is specified in the draft agenda for the part-session at which it is to be considered.

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A

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the French nationalizations

The European Parliament,

- having regard to motions for resolutions Doc. 1-502/81 and Doc. 1-896/81,

- having regard to the report by the Committee on Economic and Monetary Affairs (Doc. 1-1338/83),

A. having regard to developments in the nationalized undertakings sector and more specifically in industry and the credit sector, whose importance to the French economy is greater than in any other Member State of the EEC, which are altering the balance between the public and private sectors,

B. whereas the nationalized banking system has virtually established a monopoly by developing, through concentration, a dominant position which is likely to create problems as regards respect for competitive relations and state influence linked with certain preferential aids,

C. whereas nationalizations have to be assessed not only in terms of the legitimate economic decisions of each government but also at European Community level in terms of the rules of international competition with which Europe cannot but comply,

D. having regard to the positions previously adopted by Parliament, in particular the opinion adopted in October 1983 and the FRANZ report on the Twelfth Report by the Commission of the European Communities on competition policy,

E. whereas at this time of economic crisis private investment has fallen to a low level in all the Community countries and whereas public investment for the purpose of modernization might help to improve dynamism and competitiveness in relation to competition from abroad,

F. whereas the world economic crisis and the upheavals brought about by the third industrial revolution have made it necessary for the community to possess large, modernized and competitive industrial groups,

1. Considers that it is the Commission's duty to ensure respect for the rules of competition as laid down in the Treaties and to analyse the exact nature of existing situations;

2. Calls on the Commission to draw up a report on the conditions under which concentrations and mergers of nationalized undertakings within the EEC have taken place over the last three years, particularly as regards international trade;

3. Calls for an analysis in that report of the consequences for financing the needs of the economy, the transparency of financial relations between the State and public undertakings and the extent to which the neutrality of the banking system has been respected, in view of the unprecedentedly high level of nationalization in the credit sector in France,

4. Requests its President to forward this resolution to the Commission, the Council and the Governments of the Member States.

B

EXPLANATORY STATEMENT

1. It should be pointed out that Parliament's agenda has included a number of oral questions to the Commission and Council on the compatibility of the nationalization of French undertakings with Community rules and in particular with Articles 86-90, 92 and 222 of the EEC Treaty and Article 83 of the ECSC Treaty.

In the case of the banking sector, the consequences of these nationalizations should be considered more in the light of possible obstacles to the free movement of capital as laid down in Article 70 of the EEC Treaty.

2. It will be useful to reiterate the position adopted by the Community authorities and, more specifically, the answer given by Commissioner ANDRIESSEN before Parliament on 14 October 1981.

Mr Andriessen pointed out that Articles 222 of the EEC Treaty, 83 of the ECSC Treaty and 91 of the EAEC Treaty lay down the principle of neutrality as regards the system of property ownership.

Consequently the Commission did not react to the actual decisions on nationalization and the Member States still enjoy complete freedom in this area. Legally speaking, the Community cannot interfere with their decisions even if, as was the case in France from 1981 onwards, they are taken for ideological reasons and as a political commitment rather than for economic reasons. The many statements issued by members of the new majority leave no doubt on this matter; one need only read Chapter II of the government programme. It would be pointless to labour this aspect any further.

3. The matter which should concern us is whether or not nationalized undertakings respect the rules of competition. In this connection, the Commission not only can but must ensure that the activities of the State in relation to nationalized sectors or of nationalized sectors on the market do not lead to the distortion of competition. It must react to developments. In his answer to Parliament, Mr Andriessen stressed that

the relative lack of transparency which is often a feature of the relations between the State and public undertakings could cause particular difficulties in the application of Article 92 regarding State aids. This was the problem encountered by your rapporteur in carrying out the research needed to provide you with information which is as complete and as subjective as possible.

4. The Commission's Twelfth Report on competition policy highlights its efforts to ensure that the public sector does not enjoy positive discrimination compared with the private sector. The concern that State intervention should not include preferential aid is the source of the directive on the transparency of financial relations between the State and public undertakings; the validity of this directive was confirmed by the Court of Justice on 6 July 1982.

Whilst, however, the Commission fully acknowledges its responsibility and is quite prepared to accept it, it has made no report on the action taken and has very little information on the development of situations which it should be analysing without delay, particularly the formation of what are effectively monopolies in certain sectors of competition.

4. At European level, new studies carried out by the European Centre of Public Enterprises reveal that in 1979 (before the latest French nationalizations) the European public sector employed 11.9% of the total workforce in the European non-agricultural commercial sector. It accounted for 13.2% of added value and 22.5% of gross investments in fixed assets.

In Europe these undertakings accounted for the following average percentages:

- 70% of the energy, transport and telecommunications sectors taken as a whole,
- 30% of the financial sector,
- 6 - 7% of the industrial sector, more particularly of the chemical and engineering sectors,
- less than 2% of all other commercial and service sectors.

The comparison between the impact of public sectors on their national economies, again according to the European Centre of Public Enterprises, is as follows after the nationalizations carried out in France in 1982:

(a) The French public sector has the greatest impact on its national economy with a 22.4% share,

(b) Italy comes about 3 points lower, at 19.5%,

(c) The British public sector is now below 18% and privatisation measures are taking place,

(d) The Federal Republic of Germany has 13.2%, the Irish sector has 13% and that in the Benelux countries only 9.6%,

(e) Spain has 8%, Portugal 15% and Greece is now approaching 20%.

6. One of the motions tabled, that of Mr COUSTE (Doc. 1-502/81, Rule 47) lays emphasis on the nationalization of key sectors and the State takeover of the credit sector. It is appropriate to recall briefly the place of the public sector in the French economy in this third quarter of 1983, particularly in comparison with the situation in Europe mentioned above.

The information and figures given, either globally or by sector, are taken from official documents published in France by INSEE and the Ministry of Industry or from annexes to budget documents, finance laws, etc.

There are 183 undertakings in France in which the State directly holds all or a majority of the capital and these undertakings themselves head groups consisting of many associate companies or subsidiaries. If we count the associate companies and subsidiaries, adding to them those which are 'consolidable' by the parent undertakings and consolidated subsidiaries of Rhone-Poulenc, PUK, Saint-Gobain, CGE, Thomson, Usinor and Sacilor, we reach a substantial total of 2,770 associate companies and subsidiaries over which there is 'power of control' in terms of economic law[1].

These figures do not include undertakings belonging to local authorities, which number about 1,100.

In overall terms public undertakings in the French economy account for abut 11% of the working population, 17% of the GDP and 35% of national investment.

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[1] Revue politique et parlementaire No. 902

The 1982 public report by the Auditor General's Department shows a figure of 2,552,000 employees in France's public undertakings, 876,000 of these coming from the 1982 nationalizations with 799,000 in the industrial sector.

The public sector's share in French industry is about 22% and varies according to the sector:

- iron and steel, ore, materials and metals: 38%
- chemical industry (average share 36%)
- engineering and electrical industries (about 25%)
- textiles, clothing, leather, footwear, woodworking, furniture, paper, board and other industries (average share 2.5%).

According to the AFB, in the banking sector strictly defined as such the nationalized banks constitute a public sector share of 90.1% of short-term liquid investments and deposits and 84.7% of loans to business and private customers.

Public sector employees currently constitute 89.9% of the total number of employees of the 132 registered banks.

7. From the point of view of the competition rules it is interesting to note that the State controls virtually the whole banking system; those banks which are still in private ownership, together with the co-operative and mutual sector, now issue only about 15% of loans. At this level it must indeed be admitted that the limits of competition are soon reached, particularly since there are controls on the opening of new bank outlets, credit is subject to restrictions and interest rates (bank base rate) are actually set by the policy of the nationalized banks.

On the other hand, the State as banker has become the essential source of finance for the State as industrialist, which could pose the problem of compliance with the competition rules and that of government influence associated with the element of preferential aid.

Finally, the nationalized banking sector definitely constitutes an abuse of a dominant position owing to the concentration under the sole authority of the State, even if each undertaking theoretically remains relatively independent.

This monopoly in the credit sector effectively precludes the maintenance of a competitive private sector as regards both the collection of savings and distribution of credit and as time goes by there is a growing tendency for the relevant criteria to be determined by the state. The criteria of viability and economic necessity are often ousted by the introduction of political and social criteria.

8. The report by Mr FRANZ on the Twelfth Report of the Commission of the European Communities on competition policy, which was adopted by the Assembly in October 1983, drew attention to the danger of the concentration effect produced by nationalizations and welcomed the Commission's announcement of investigations into the financial relations between the Member States and their public undertakings in certain sectors, expressing the hope that they would be extended to the banking sector.

We can only restate Parliament's position when we read, for example, a statement issued at the beginning of October 1983, in which the French Parliament's Committee on Production and Trade declares, following its hearing of Mr FABIUS, Minister for Industry and Research, that the Minister for Industry has called on nationalized undertakings to provide a detailed breakdown of their currency receipts and expenditure to enable him to assess the relative burden of imports and to propose changes in their purchasing schedules.

Another example of state interference in the normal mechanisms of finance is the Minister's announcement, at that same meeting, that the government would be tabling an amendment during the debate in the Assembly calling for the capital resources of national undertakings in the Industrial sector to be entered in the credit resources of the Ministry of Industry in future.

9. To illustrate the significant role of the State as banker responsible for supporting the State as industrialist, we must also cite the statements made by Mr Jacques DELORS, the Minister for Economic Affairs and Finance, during the debate on the nationalizations in the National Assembly in October 1981. He stressed that it 'is more important than ever to place

the financial system at the service of economic development. The banking system must not use industry as a source of enrichment, but set itself to serve undertakings in the context of an overall policy' ... 'the expansion of a strong public sector consisting of competitive undertakings capable of promoting a new industrial dynamism must be supported by a banking sector serving these aims'.

What clearer statement could there be of the aims of State aid directed towards nationalized undertakings? This aid has taken various forms in the activities of the nationalized banking system in conjunction with direct injections of capital. In 1982 the State's capital contribution was FF 9 billion and for its part, the nationalized banking sector provided FF 6 billion's worth of finance to boost own resources and FF 3 billion in participatory loans at the rate of 5.5% for the first few years and 9% for subsequent years. Depending on the banks' commitments participatory loans could amount to about FF 4 billion during 1983.

The second facet of the banking system's involvement is the SFPI (Société Francaise de participations industrielles), 50.10% of whose FF 6 billion capital was subscribed by the State and the remainder by the banks and the Caisse des Dépots et Consignations.

10. So much for the recent past; with regard to the future, one of the possibilities frequently mentioned around the Ministry of Industry is that of using the capital from the FF 200 billion of deposits with the Caisse Nationale d'Epargne. The introduction in October 1983 of the CODEVI (industrial development accounts) scheme, offering tax-free interest, throughout the Savings Bank's network of outlets, is designed to finance an industrial modernisation fund which was set up by decree on 28 July 1983. It appears that there is nothing to prevent the profits from this fund being used to finance investments by nationalized undertakings.

As regards the financing of undertakings, we might ask ourselves whether the private sector has sufficient resources at its disposal to satisfy its needs. The simple answer is yes but the matter deserves further consideration which is beyond the scope of this report. The reasons for this self-sufficiency include the decline in the rate of economic growth, a substantial drop in investments, an unprecedented increase in the social and fiscal charges levied on the workforce, the reduced viability of undertakings which are no longer able to meet their credit commitments and high interest rates on short, medium and long-term loans. These constraints do not weigh so heavily on nationalized undertakings.

Nationalization has changed industrial structures and the way in which undertakings are financed in France. We may note that the whole of this new public sector employs slightly more than 22% of the industrial workforce, and is responsible for 30% of added value and 32% of exports. In 1981 investments made by the nationalized undertakings amounted to 56% of the total for the industrial sector.

11. In this document it is impossible to give details of the procedures prescribed by the law of 11 February 1982 nationalizing the five industrial groups CGE, Saint-Gobain, PUK, Rhone-Poulenc and Thomson Brandt, nor of the operations to restructure the capital of Usinor and Sacilor to give the State a majority share in these two iron and steel groups. The State has also secured control of Compagnie des machines Bull, the parent company of CII-HB, and of CGCT.

These nine undertakings join the existing three nationalized undertakings (Renault, EMC and C de F chimie) and the industrial state-owned companies in the defence sector or subsidiaries of CEA and the BRGM. The public sector in French industry has now reached the exceptional size mentioned above.

12. The broad lines of the Government's policy are translated into the strategy of the nationalized undertakings by means of planning agreements. A document issued on 1 September 1983 by the Minister of Industry and Research elucidates the guidelines, priorities and aims of the Government's industrial policy. The objectives for each group have been defined and described in detail, as well as the distribution of roles among the nationalized undertakings.

It is interesting to note that these undertakings have the task of attempting to maintain overall employment levels, if necessary by creating jobs outside the group, which means continuing the development of the nationalized sector. The SOPRAN subsidiary of Rhone-Poulenc, for example, will be extending its activities.

The Ministry states that the overall level of investments planned by the 11 undertakings which have signed this planning agreement amounts to more than FF 31 billion in 1983, as against FF 24 billion in 1982.

Total planned investments for the three years from 1983 to 1985 amount to approximately FF 100 billion.

Own resources made available to the nationalized enterprises from budgetary and non-budgetary sources or from the financial market will be in excess of FF 20 billion in 1983.

It is interesting to highlight the fact that the planning agreement with Sacilor envisages its recovery plan, which aims at a return to break-even by about 1986, being financed with assistance from the State.

13. The restructuring objectives are starting to emerge clearly. On 21 September 1983, for instance, the Chairmen of Thomson and CGE published an agreement which has just received written approval from the French Government.

Under the terms of this agreement Thomson will 'hand over' telephones to CGE by means of mergers via a subsidiary, with the State participating in a FF 720 million increase in capital.

CGE will hand over to Thomson electronic components, consumer electronics and electronics for military applications (Sintra).

Under the agreement it seems that the PTT will keep the proportion of goods supplied by Thomson, Télécom and CIT at the same level as in 1982. So here is the French postal and telecommunications authority with virtually a single supplier.

14. The Commission has, with reason, been consistent in its criticism of 'the expansion of the public sector coupled with increasing State influence on market activities'. This must now be reflected in more practical studies and should not be restricted to superficial and philosophical evaluations. It should submit the results to the Council and to Parliament. In 1982, 233 applications for state aid were submitted to the Commission as against 141 in 1981. It would be interesting to know how many of these applications related to the nationalized sector of the various EEC countries and particularly France, where the deficit of the nationalized undertakings rose from FF 2.2 billion in 1980 to FF 36 billion in 1982.

15. Neither the European Parliament nor its Committee on Economic and Monetary Affairs have any investigative powers and cannot act in place of the Commission in carrying out inquiries which might uncover irregularities.

Whilst it may be necessary in the light of international competition and at a time of rapid technical and technological development for undertakings to change their structure, develop and adapt to the modern economy, to group together to form undertakings of a size which will enable them to reach new thresholds of competitiveness, we must nonetheless oppose the monopolies which are being established as a result.

16. The facts set out in this report clearly demonstrate the existence of potential obstacles to competition both between the nationalized and private sectors and in respect of international trade. These grave misgivings are sufficient to justify the request that the Commission draw up a report before giving its final judgment on irregularities which should perhaps be penalized.

MOTION FOR A RESOLUTION - DOCUMENT 1-502/81
tabled by Mr COUSTE
on behalf of the Group of European Progressive Democrats
pursuant to Rule 47 of the Rules of Procedure
on the nationalization of certain key sectors of the French economy and the State takeover of the banking and credit sector

The European Parliament,

- whereas the French Government's decision to nationalize 11 large sectors of the economy - some of them key industries such as iron and steel, aircraft manufacture and chemicals and the State takeover of the banking and credit sector, together with the provisions being planned to make these procedures, at the wish of the Government, irreversible, jeopardize the future of the European Community by threatening to evade the rules on competition as set out in Articles 85 to 90 of the EEC Treaty,

1. Calls for an investigation of these measures to determine whether they constitute a breach of the EEC Treaty, in particular of its Articles 86(c) and 90;

2. Calls for an investigation of these measures to determine whether they also constitute a barrier to the free movement of capital as laid down in Article 70 of the EEC Treaty;

3. Believes that this nationalization policy, with its accompanying distortion of competition with undertakings in the other Member States of the Community, runs contrary to the aims of the economic policy of the EEC, especially the achievement of a single internal market, and is a retreat from the progress made up to now towards business cooperation;

4. Believes it necessary and proper to remind the French government both of its need to respect its national commitments and of the interests of the Community;

5. Instructs its President to forward this resolution to the appropriate parliamentary committee and to the Commission, the Economic and Social Committee, and the Council.

MOTION FOR A RESOLUTION - DOCUMENT 1-896/81

tabled by Mr JAQUET, Mr GLINNE, Mrs CHARZAT, Mr LOO, Mr ALFONSI, Mr BOMBARD, Mr CARIGLIA, Mrs DESOUCHES, Mrs DUPORT, Mr EYRAUD, Mr FAJARDIE, Mr G. FUCHS, Mrs FUILLET, Mr GEORGIADIS, Mr HANSCH, Mr LALUMIERE, Mr MARKOPOULOS, Mr VAN MINNEN, Mr J. MOREAU, Mr MOTCHANE, Mrs Kalliopo NIKOLAOU, Mr PERCHERON, Mrs PERY, Mr PLASKOVITIS, Mr SABY, Mrs SALISCH, Mr SCHMID, Mr SCHWARTZENBERG, Mr SUTRA, Mr THAREAU, Mrs THEOBALD-PAOLI and Mrs VAYSSADE

on behalf of the Socialist Group

pursuant to Rule 47 of the Rules of Procedure

on the French nationalizations

THE EUROPEAN PARLIAMENT,

- having regard to the Commission's answer to the written question by Mr Philips of 12 November 1965, which states that, in accordance with the principle enshrined in Article 222, each Member State has the right to change the property ownership system in a sector of its economy,
- having regard to the judgment of the French Council of State (National Union of Manufacturers of spirits consumed with water, 27 July 1975), which affirms that the provisions contained in Article 7 of the Treaty of Rome are intended merely to eliminate discrimination against nationals of other Member States of the Community and that under no circumstances could they restrict the powers which national authorities enjoy in respect of their own nationals; whereas the French Government's draft law on nationalization contains no measures which discriminate against nationals of the other Member States of the Community,
- having regard to point 232 of the Commission's seventh report on competition policy, which states that state participation in the capital of an undertaking can be classed as state aid only after the event,
- whereas the decisions by the Italian Government to nationalize its electrical industry in 1962 and by the British Government to nationalize its aerospace and shipbuilding industries in 1977 did not lead to controversy at Community level,

1. Recognizes the right of the French Government to proceed with nationalizations in any sector of its economy;
2. Notes that the French Government's draft law on nationalization does not call into question the rules on competition laid down by the Community;
3. Notes that this draft law preserves freedom of establishment and the free movement of persons, services and capital on French territory;
4. Instructs its President to forward this resolution to the Commission, the Council and the President of the French National Assembly.